AMERICAN STORES COMPANY
ANNUAL REPORT 1981

...tered in Salt Lake City, ... ican Stores Company is one o... nation's leading retailers opera... ge combination food an... s, food stores and drug ... through its principal ... Alpha Beta Company, Skaggs ... ies Inc., Acme ... and Rea and Derick, Inc. ... ny, as of January 31, 1982, ... over 1100 retail units ... Midwest.

Ameri... es Company ... emphasis for ... growth ... s "Sun Belt," to capitalize ... ip in the develop... larger combination food/drug ... es, in markets wherein ... high ... ion and success ... its reputation of offering customer ... serv ce, quality ...

FINANCIAL HIGHLIGHTS

Fiscal years ended January 30, 1982 and January 31, 1981

American Stores Company and Subsidiaries

(In thousands of dollars, except per share data)	52 Weeks 1981	52 Weeks 1980
Sales	**$7,096,590**	$6,419,884
Net Earnings	**$64,552**	$51,553
Per Common Share	**$5.42**	$4.11
Dividends Declared Per Share:		
Common	**$.80**	$.80
Preferred	**$5.51**	$5 51
Common Shareholders' Equity	**$289,593**	$243,868
Book Value Per Common Share Outstanding	**$29.41**	$24 83
Return on Common Shareholders' Average Equity	**20%**	18%
Average Common Shares Outstanding	**9,847**	9,804

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The Annual Meeting of shareholders will be held at:
Salt Lake International Center
5181 Amelia Earhart Drive
Salt Lake City, Utah
Wednesday, June 2, 1982, at 10:00 AM.

A LETTER TO THE SHAREHOLDERS

Dear Shareholder:

I am pleased to report to you that American Stores Company achieved record sales and earnings in the fourth quarter and fiscal year ending January 31, 1982. Overall performance was highlighted by significant strides which included: *steps to revitalize Acme Markets; the strengthening of the* Company's balance sheet; and progress toward further corporate unification of the American Stores family of companies.

FINANCIAL RESULTS: Reflecting advances in the second half of the year, American Stores Company posted a 32 percent gain in net earnings per common share on a 10.5 percent increase in sales for the year. Net earnings for fiscal 1981 totaled $64,552,000, up 25 percent from $51,553,000 in the prior year The percentage difference between earnings per common share and net earnings is attributable to the leverage effect of the preferred dividends. Per common share earnings were $5.42, an increase of $1.31 per share, as compared with the $4.11 in 1980 and $4.36 in 1979. Sales rose to $7.1 billion from $6.4 billion in 1980. Both sales and earnings represented new record levels for the Company.

New sales and earnings records were set in the fourth quarter. Sales rose to $1.9 billion from $1 7 billion one year ago. Net earnings for the period were $31,626,000, an increase of 71 percent from $18,530,000 in the prior year. Per common share earnings in 1981 amounted to $2.94 as against $1.60 in 1980 and $1.79 in 1979.

OVERVIEW: The sales and earnings improvements reported are particularly encouraging in view of the economic and monetary conditions prevailing throughout the economy during the period. All major operating subsidiaries made significant progress. The gains reflected the Company's well-established market position as a leading retailer of food, drug and general merchandise.

Several factors influenced 1981 operating results including lower LIFO charges, reduced interest expense, an increase in the effective tax rate, the sale of surplus assets and the early retirement of public debt

ACME MARKETS: Management has undertaken a vigorous, multi-faceted program to revitalize this major subsidiary, which was experiencing weak sales and significant losses. Strong measures were necessary if Acme was to remain viable in this highly competitive area of the nation.

Management's programs included utilizing the experience and expertise of other members of the American Stores family of companies. Initially, it was critical to reposition Acme so as to regain consumer confidence. An aggressive advertising program has carried the theme of Acme as "the overall low price leader." This message, in conjunction with a price roll-back on over 3,000 items, has proven effective in winning back customers and increasing sales.

Another facet of the Acme program involved improving efficiency and reducing expenses. Administrative and supervisory staff levels have been reduced and operations have been streamlined to create a leaner, more efficient organization. The cooperation of Acme's employees and trade unions in this endeavor is essential. Acme's fourth quarter performance improved, but not sufficiently to offset losses earlier in the year. Further streamlining of the Acme organization will continue to be a top priority for management during fiscal 1982.

STRENGTHS: Since the merger of the former American Stores Company and Skaggs Companies, Inc in July 1979, programs have been put into effect to develop, strengthen, unify and effectively utilize the array of capabilities existing within the combined organization. During the past year, unification efforts were intensified. By integrating key functions at the corporate level, the Company will enhance its operating efficiency and prospects for successful growth.

Long range planning, real estate activities, management information systems and purchasing have been included in the unification program With respect to planning, each of the operating subsidiaries is participating in the development of a total corporate strategy for growth and increased profitability. A strong real estate capability is essential to a growth-oriented retailer. Therefore, American Stores Properties, Inc. has been assigned corporate-wide responsibility for all real estate, construction and property management.

The effective management of information is another area vital to our growth efforts. The newly-formed American Stores Management Systems Company is responsible for the coordination of all computer systems to assure the development of uniform information and accounting systems at all levels of the Company.

American Stores Buying Company has expanded its functions to include a centralized national buying organization. The Company will provide a central purchasing organization for suppliers as we develop a unified private label merchandising program.

FINANCIAL AFFAIRS: The Company continues to make a sustained effort to reduce and effectively manage debt and to improve the debt-to-equity ratio. Interest expense for the year was reduced, and interest income increased

Capital expenditures for 1981 were approximately $120 million and were funded primarily from internally generated cash flow. In 1982, capital expenditures will approximate $135 million, also to be substantially met from internal sources. Effective asset management is also important to improving our finances, and we continue to dispose of excess or non-profitable assets, resulting in a pre-tax gain of $3 million last year on the sale of these assets.

DIVIDEND: The Board of Directors, at its meeting on March 10, 1982, authorized an increase in the quarterly cash dividend rate to $.25 annualized to $1.00 per share on the common stock as compared to a quarterly rate of $.20 or $.80 annualized in 1981. Total dividend payments, preferred and common, in 1981, were in excess of $19 million, a pay out of 30 percent of net earnings.

The increase in the common stock dividend reflects improved earnings and a strengthened financial condition. The directors remain mindful, however, of the need to conserve capital and preserve liquidity in the present economy.

FUTURE: Analysts of the retailing industry continue to regard the combination food-drug store as a most viable and exciting concept for the eighties and beyond. The advantages of one-stop shopping for food, drug and general merchandise are most important in view of high energy costs and time pressures in a society where the number of working wives continues to increase.

We continue to marshal the resources needed for effective combination store development. Progress has been made in integrating the expertise of Alpha Beta and Skaggs in food and drug retailing.

As for the future, American Stores Company will continue to add new units in attractive areas of the country. Our flexibility in being able to respond to market needs with various sizes and types of units remains an important strength. We will also strive to improve our return on the existing asset base through a very active program of store remodeling and refurbishing. During 1981, approximately 50 stores were remodeled, and this effort will continue.

BOARD: We wish to recognize the significant contributions of three distinguished directors whom have reached the mandatory retirement age.

A.B. Kesler, Jr. retired as a director last June after fourteen years of dedicated service during a period of dynamic growth for the Company. Mr. Kesler, a respected business executive and one of the leading bankers in the Intermountain West, brought a sense of discipline and diligence to his board responsibilities. The vacancy on the board created by his retirement was filled by the election of Mrs. Aline W. Skaggs, wife of Board Chairman L.S. Skaggs, on October 21, 1981.

Mitchell Melich, a prominent Utah attorney, will retire from the board at the Annual Meeting of Shareholders in June. Elected a director in 1980, he has brought to the Board a wealth of knowledge from a distinguished career in law, civic and public service at both the state and national levels. His thoughtful leadership and concern for detail made an important contribution to the Company's successful merger.

Also retiring from the Board at the Annual Meeting in June is a unique figure in the history of the Company. E.A. Sinclair has served the Company as employee, administrator, executive and director for almost four decades with unswerving dedication and loyalty. He joined Skaggs Companies, Inc., in 1945 as office manager, served as corporate secretary from 1972 to 1977 and was elected to its Board in 1973.

Mr. Sinclair, or "Art" as he is affectionately known to most of the officers and employees alike, has been an inspiration to each and every person who has worked with him. His wise counsel, excellent administrative and executive abilities and unselfish dedication have been critical to the development of the Company.

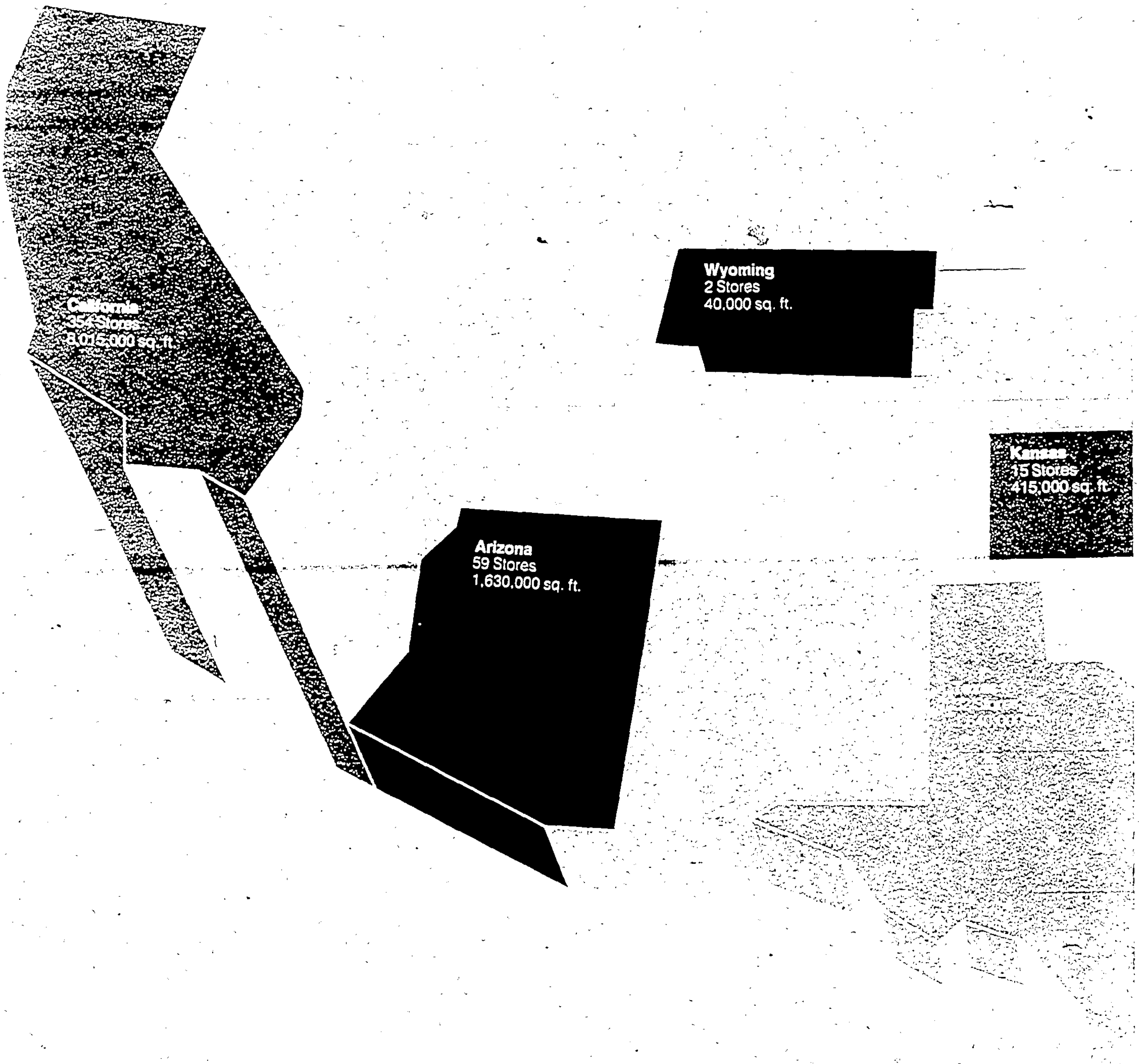
The Board of Directors wishes to acknowledge the dedication and contribution of each retiring director and express our deep appreciation for their service.

SUMMARY: We shall continue operating our business as efficiently as possible. We believe we have the balance and strength to successfully meet these challenging economic times. Cost control through a variety of programs, including long range planning and unification efforts, will remain a central objective.

We are hopeful that we can maintain our progress in the present year.

Sincerely,

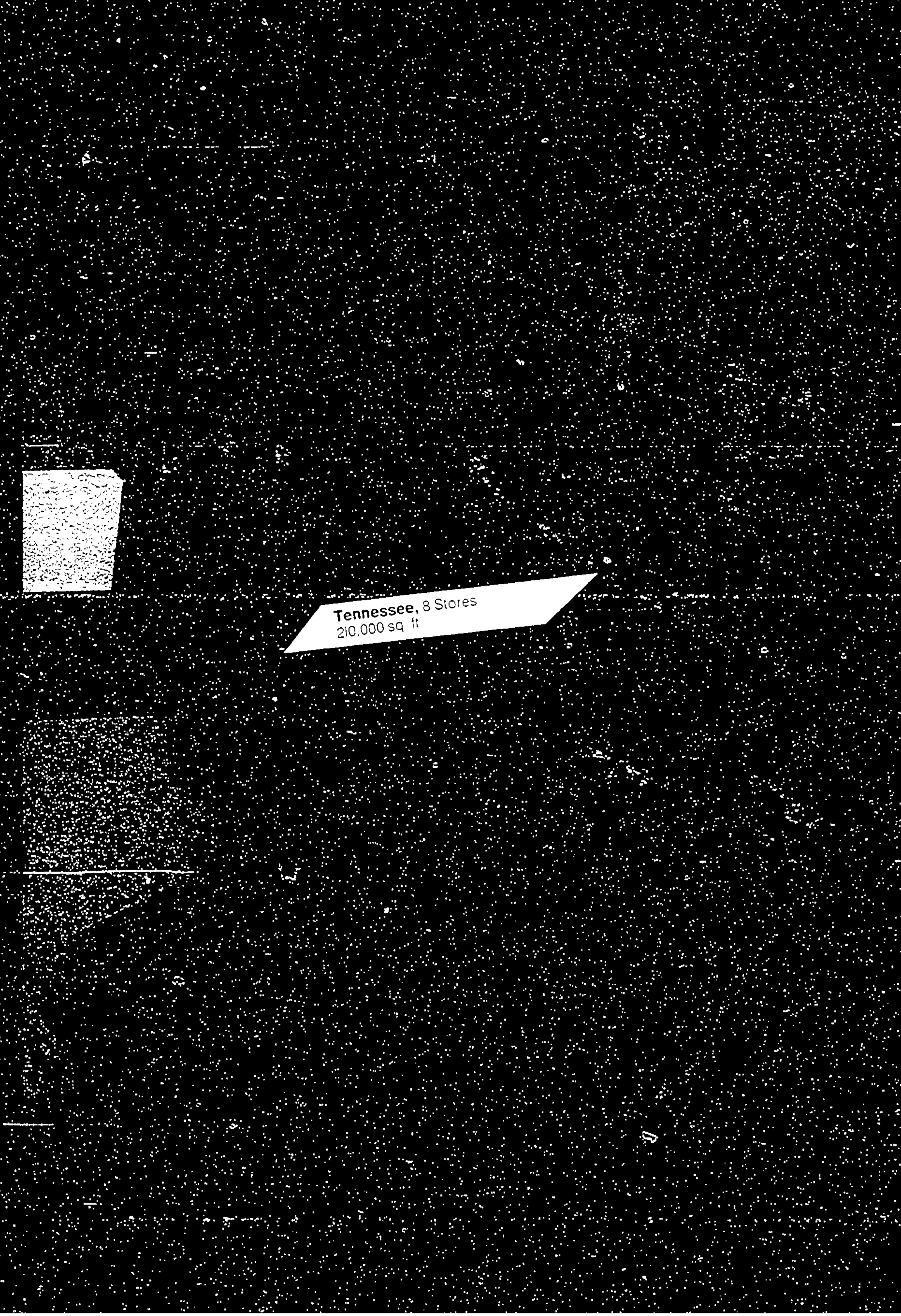
L.S. Skaggs
Chairman of the Board and
Chief Executive Officer

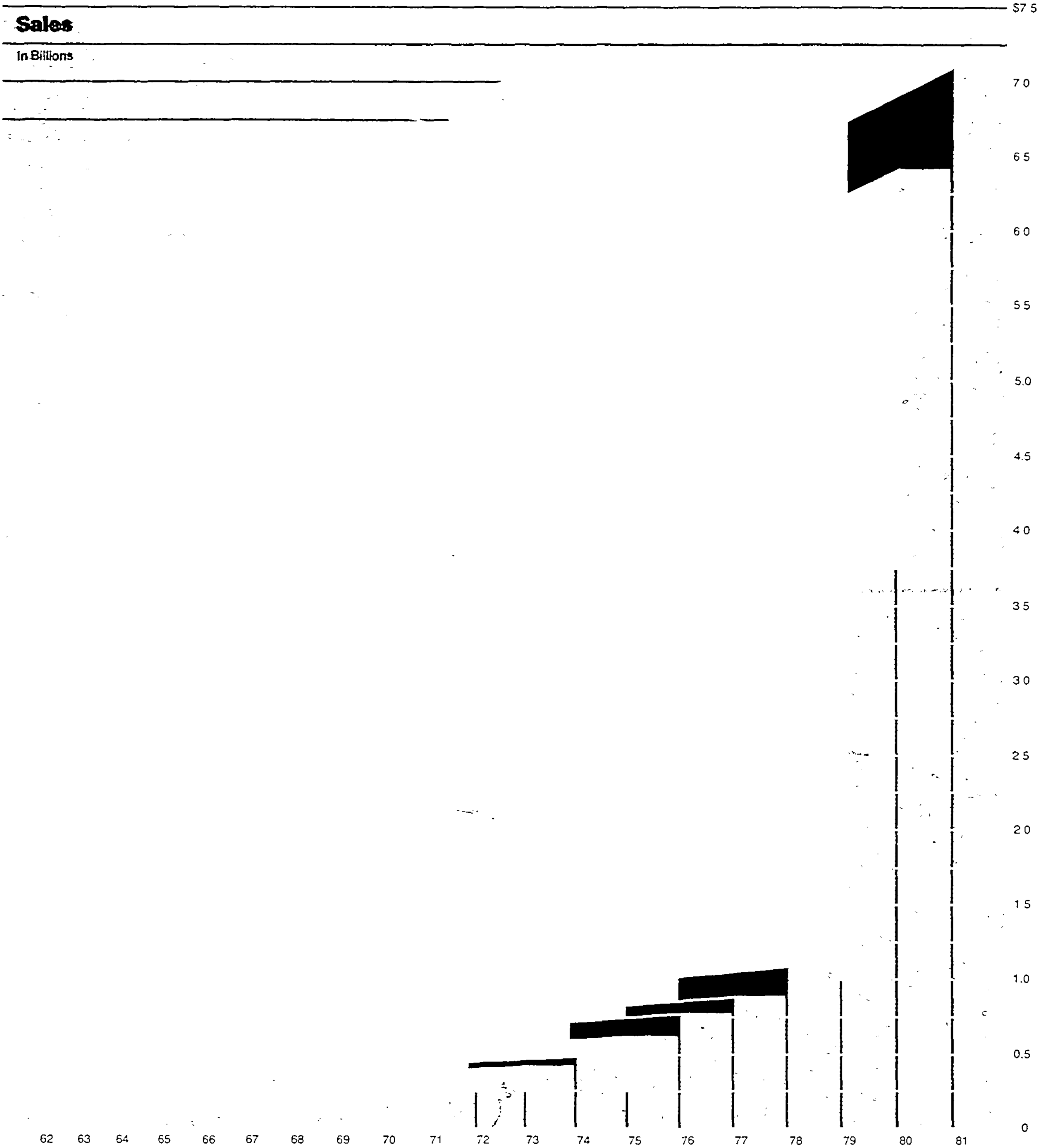


American Stores Company Marketing Area and Stores in Square Feet

Total 26,923,287 Square Feet

(States, square footage rounded)


Tennessee, 8 Stores
210,000 sq ft

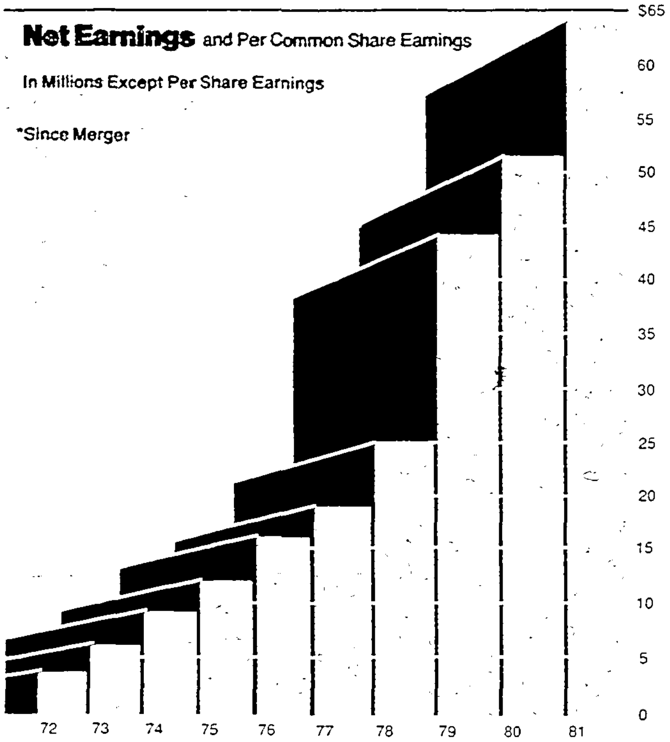


Sales
In Billions
$7 5
7 0
6 5
6 0
5 5
5.0
4.5
4 0
3 5
3 0
2 5
2 0
1 5
1.0
0.5
0
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81

Net Earnings and Per Common Share Earnings

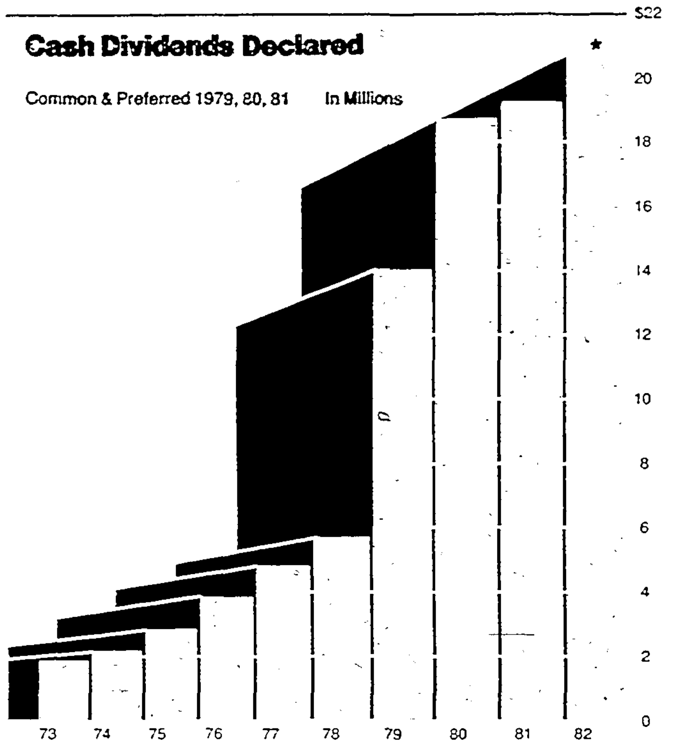
In Millions Except Per Share Earnings

*Since Merger



Cash Dividends Declared

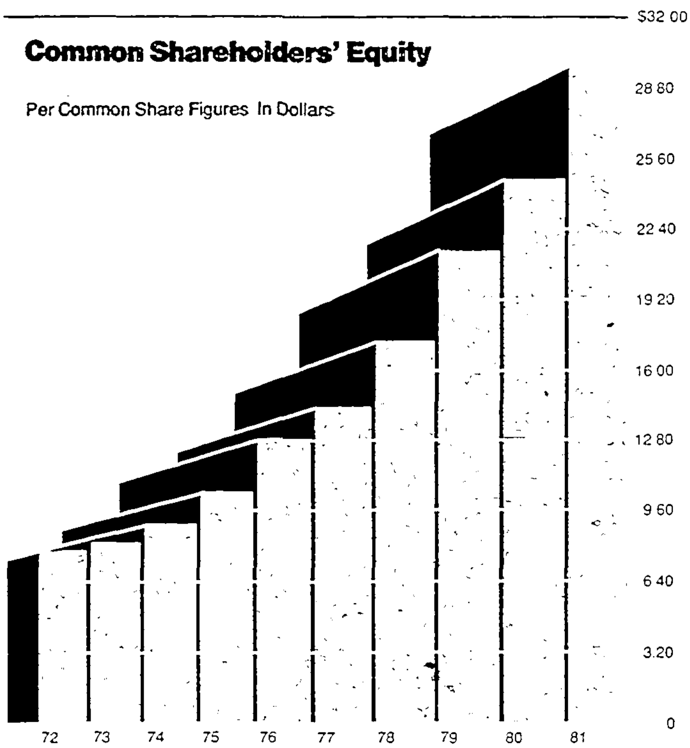
Common & Preferred 1979, 80, 81 In Millions



*Estimated based on dividend rate of $1.00 per common share effective March 10, 1982

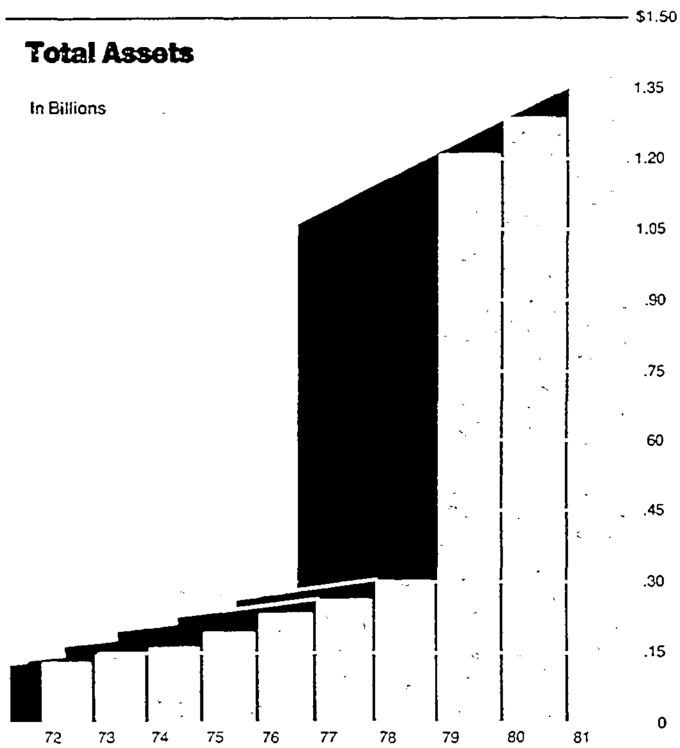
Common Shareholders' Equity

Per Common Share Figures In Dollars

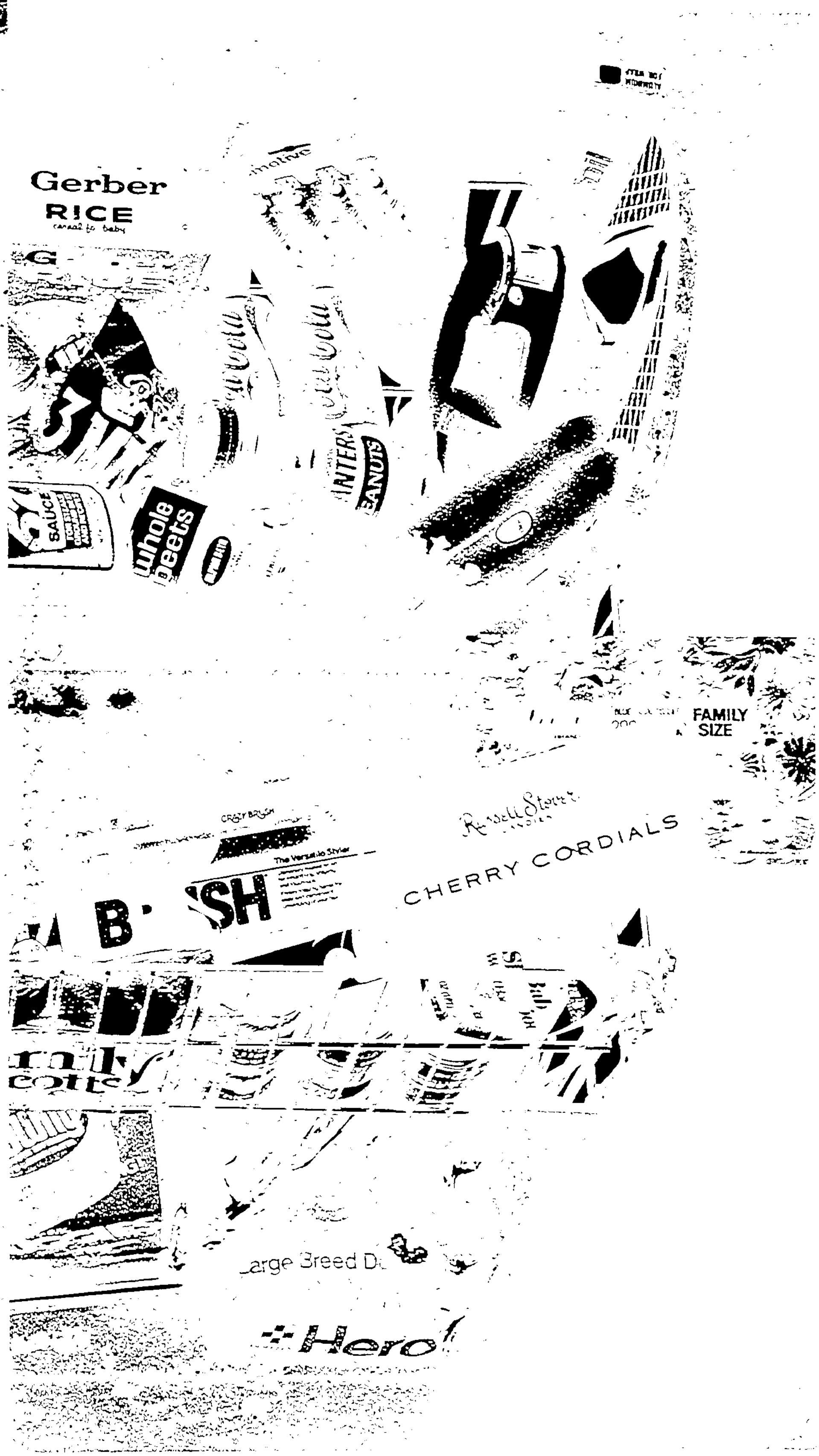


Total Assets

In Billions



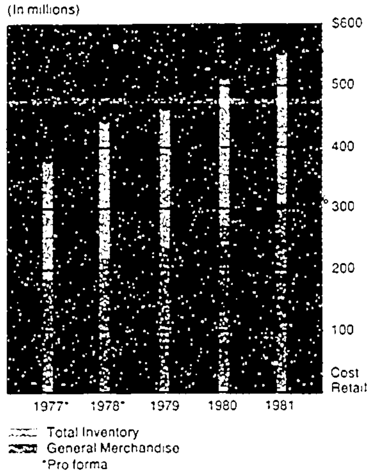

Silkience
Lady Clairol
REVLON
S.O.S
TRASH BAGS
RITZ

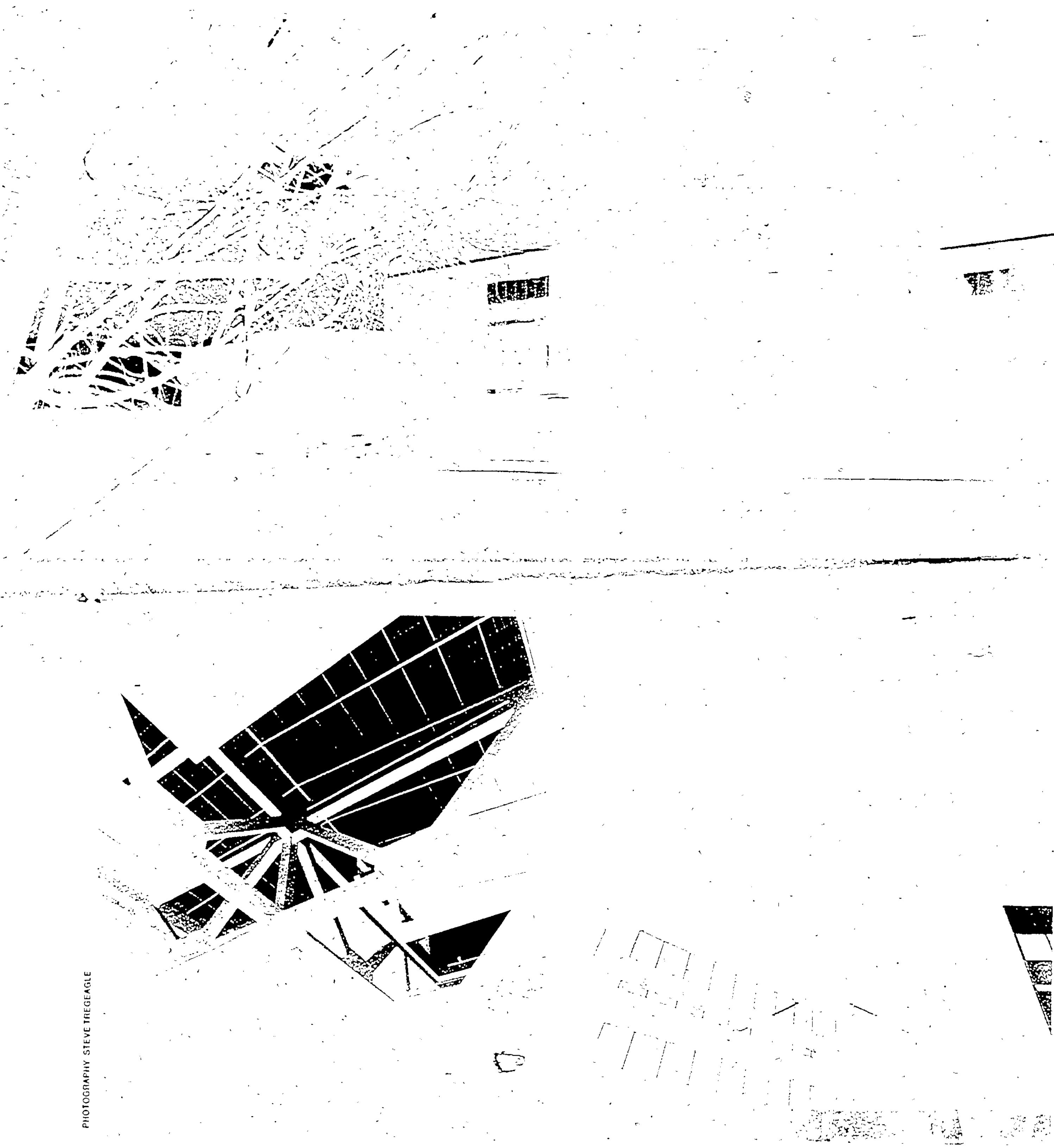


American Stores Company's modern-day shopping basket represents a broader selection of food, drug and general merchandise for today's consumers than ever before. As America's consumers seek more value and quality, in an ever greater variety and selection, encompassing both national name brands as well as private label products. American Stores Company subsidiaries are meeting that challenge. The growth of general merchandise as a percent of total inventory (chart this page) is evidence of the responsiveness of American Stores Company to consumer demand

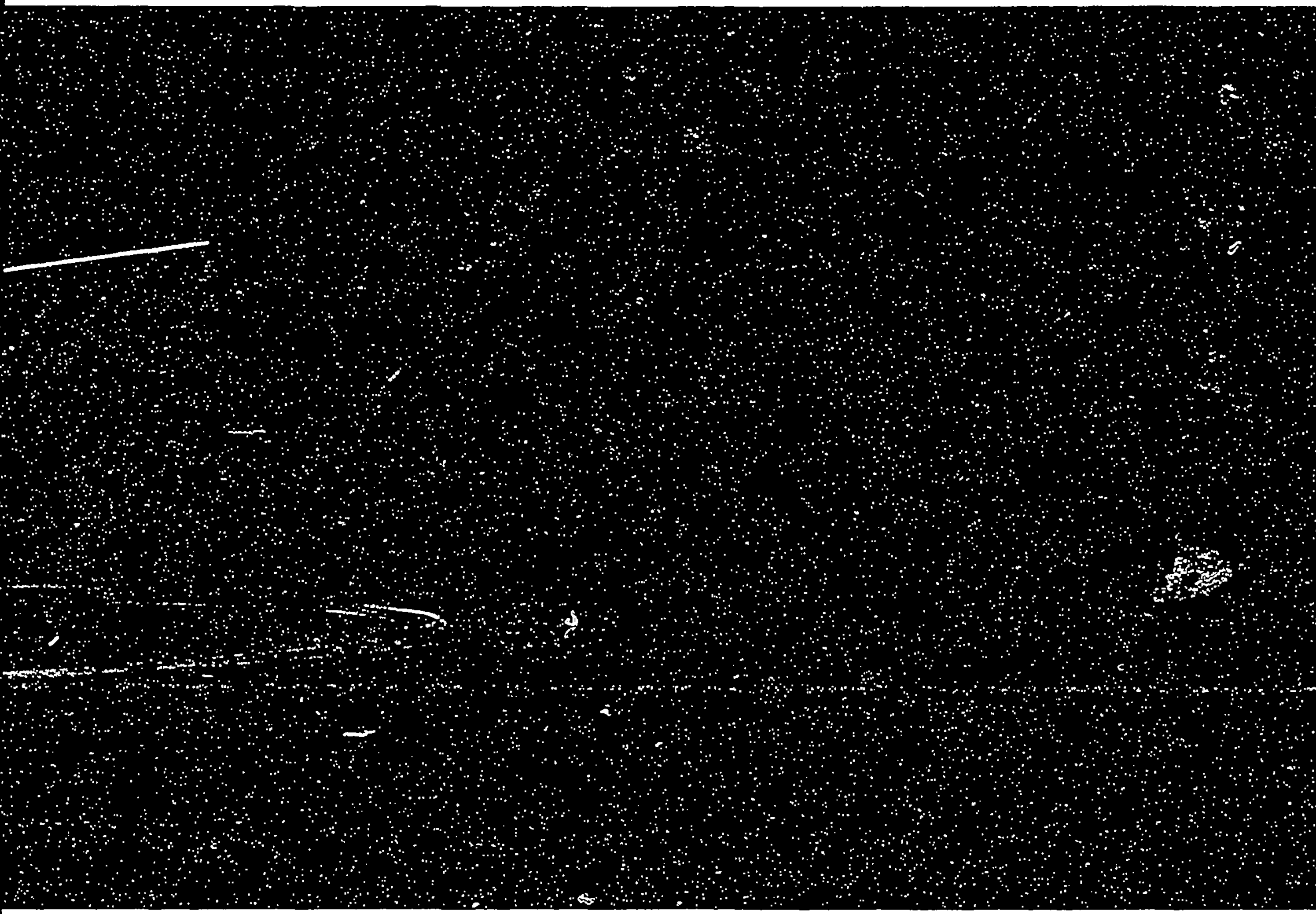
General Merchandise as a Percent of Total Inventory

(In millions)





PHOTOGRAPHY STEVE TREGEAGLE



New Skaggs building signals unification progress.

Located at the Salt Lake International Center, west of Salt Lake City, Utah, this three-story, 269,000 square foot office building, which is expected to be completed by August 1, 1982, will be the new home for the combined operating entities of Skaggs Companies, Inc.

The new office structure will enable the Company to bring together, under one roof, the various operational functions which are presently separated in several different locations The new building will enhance the Company's unification efforts and strengthen company-wide communications and planning.

The new building will also serve as the home of American Stores Management Systems Company, as well as construction personnel for real estate development.

SELECTED FINANCIAL DATA

The following consolidated selected financial data of American Stores Company and subsidiaries for five years ended January 30, 1982, should be read in conjunction with the consolidated financial statements and related notes of the Company appearing elsewhere herein:

(In thousands of dollars, except per share data)	January 30, 1982	January 31, 1981	February 2, 1980 [1,2]	December 28, 1978	December 29, 1977
Sales	**$7,096,590**	$6,419,884	$3,786,332	$1,089,909	$899,772
LIFO charge-net of tax	**4,135**	6,818	3,487	—	—
Net earnings	**64,552**	51,553	44,434	25,043	19,674
Less dividends declared on $5.51 redeemable preferred stock	**(11,220)**	(11,220)	(5,915)	—	—
Net earnings applicable to common stock	**53,332**	40,333	38,519	25,043	19,674
Average common shares outstanding	**9,847**	9,804	8,844	7,976	7,976
Earnings per common share	**$5.42**	$4.11	$4 36	$3 14	$2.47
Cash dividends per common share[3]	**.80**	.80	.80	725	.60
Total assets at year-end	**1,356,328**	1,292,992	1,218,215	307,764	265,302
Long-term obligations	**380,470**	392,327	399,729	69,210	67,018
Redeemable preferred stock	**118,110**	118,110	118,110	—	—

[1] Includes results of former American Stores Company from date of merger July 26, 1979 The Company changed its fiscal year in 1979 to the Saturday closest to January 31. See "Merger" in notes to consolidated financial statements for additional details.

[2] 53 Weeks.

[3] For restriction on common dividends, see "Long-term Debt" in notes to consolidated financial statements

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Sales and Earnings

During the 52 weeks ended January 30, 1982 the Company achieved record sales and earnings. Net earnings for the period increased 25% to $64,552,000 or $5.42 per common share compared to $51,553,000 or $4.11 per common share reported for the 52 weeks ended January 31, 1981. Sales amounted to $7,096,590,000, an increase of 11% over the $6,419,884,000 reported in 1980. Net earnings in 1980 represented an increase of 16% over the $44,434,000 reported in 1979 Sales for the same period increased 69.5% over the $3,786,332,000 reported for the 53 weeks ended February 2, 1980 The increase in both sales and earnings for 1980 compared to 1979 were attributable primarily to the merger between the Company and former American Stores Company as discussed in the Notes to Consolidated Financial Statements under "MERGER". Included in that note is a discussion of pro forma operating results for 1979. Because of the merger, the Company's discussion of sales and earnings, with a few exceptions, will be limited to comparing 1981 with 1980. Sales for 1981, as discussed above, increased 11% when compared to the same period of 1980. The Company saw its strongest sales increase in our Eastern market where the Acme subsidiary instituted a new "low price leader" campaign in January of 1981. As a whole, the Company sales increase in stores that were open for both 1980 and 1981, kept pace with inflation.

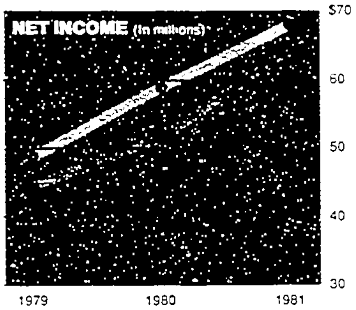
The Company's operating profits in 1981 amounted to $140,742,000 or 1.98 percent of sales compared to $125,437,000 or 1.95 percent of sales in 1980. The operating profit, prior to the LIFO charge, as a percent of sales, was down slightly in 1981 compared to 1980 primarily as a result of the start up costs associated with the new Acme merchandising campaign. The Company continued to see improved strength in gross margin during the latter half of the year, and in the fourth quarter the operating profit, as a percent of sales, was significantly higher than in the previous year. The Company continues to experience inflationary pressure on its operating expenses.

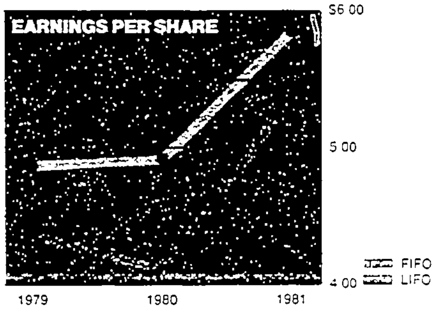
Also affecting the operating profit and net earnings of the Company was the charge associated with the LIFO (Last-in, First-out) method of costing certain inventories. The after-tax LIFO charge amounted to $4,135,000, $6,818,000 and $3,487,000 for 1981, 1980 and 1979, respectively. To allow for comparison with companies on a FIFO (First-in, First-out) basis, the Company's FIFO earnings for the three years would have been $68,687,000 or $5.84 per common share for 1981, $58,371,000 or $4.81 per common share for 1980 and $47,921,000 or $4.75 per common share for 1979.

Interest expense before capitalized interest amounted to $45,158,000, $50,484,000 and $34,852,000 for 1981, 1980 and 1979. Of those amounts, $2,996,000 in 1981 and $5,228,000 in 1980 were capitalized in accordance with recent required changes in accounting for interest cost associated with long-term construction projects. For the same three years, interest income amounted to $8,297,000, $4,925,000 and $10,344,000. Also included in the other income is a gain on the early extinguishment of long-term debt amounting to $3,862,000 in 1981 and $190,332 in 1980.

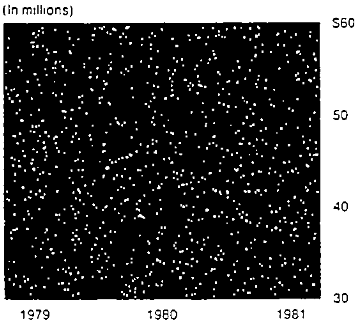
Earnings for 1979 include $.27 per common share representing the equity in earnings for former American Stores Company for the two month period prior to the merger date.

Inventory Method Comparison FIFO/LIFO

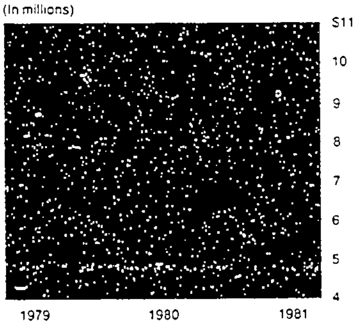




Interest Expense Before Capitalized Interest
(In millions)



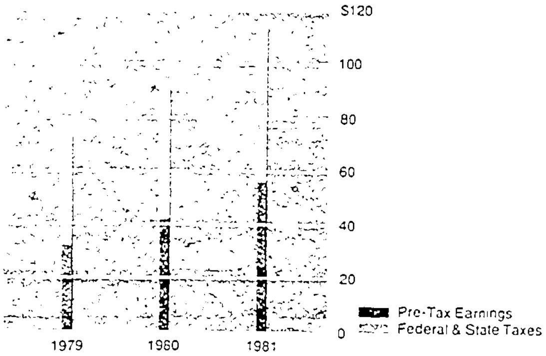
Interest Income
(In millions)



The Company's effective income tax rate amounted to 45.7%, 44.0% and 39 9% in 1981, 1980 and 1979, respectively. The fluctuation in the income tax rate is primarily attributable to different levels of investment tax credit in each year.

Pre-Tax Earnings Compared to Federal & State Taxes

(In millions)



Working Capital

Working capital and the current ratio at January 30, 1982 were $163,384,000 and 1.31 to 1 compared to $133,429,000 and 1.27 to 1 at January 31, 1981 and $139,095,000 and 1.29 to 1 at February 2, 1980. The working capital and current ratios remained relatively constant during these periods. The slight change in the current ratio was primarily due to the Company's efforts to maximize the use of its assets by taking advantage of the best payment terms from vendors and controlling inventory levels.

The graph in the margin demonstrates the ever-increasing investment the Company has in inventory levels. When examining these inventory levels, it is necessary to analyze the components that cause the actual inventory levels of the Company to vary from year to year. Inventory levels generally vary for three reasons:

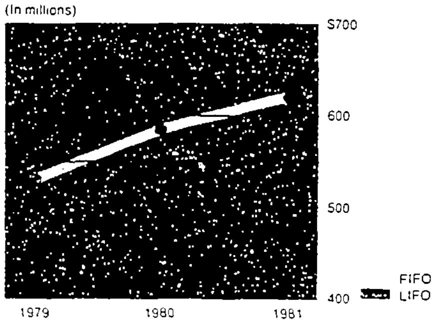
1 The addition of net new store square footage to the inventory base. This represented an increase in our total store square footage of 1.2% in 1981 to 26,923,287 square feet and 4.7% in 1980,

2 The inflationary impact on the replacement of inventory;

3. Real change in the inventory levels needed to meet real sales increases.

Investment in Inventories FIFO/LIFO

(In millions)



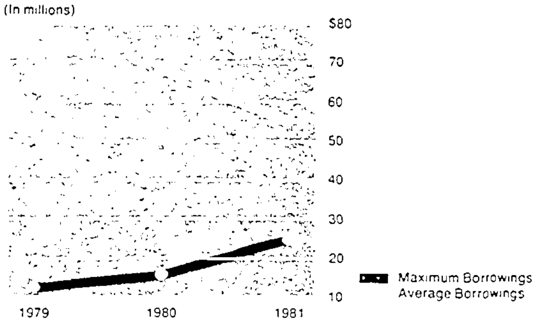
One method of determining the Company's maintenance of its inventory at appropriate levels is to calculate the inventory turns on an annual basis. The Company had inventory turns of 10.0 times, 9.7 times and 10.1 times in 1981, 1980 and 1979, respectively. As can be seen from this calculation, the Company has maintained relatively constant inventory levels in relation to its sales base. Other components of working capital maintained levels similar to those in the previous year.

Short-Term Borrowings

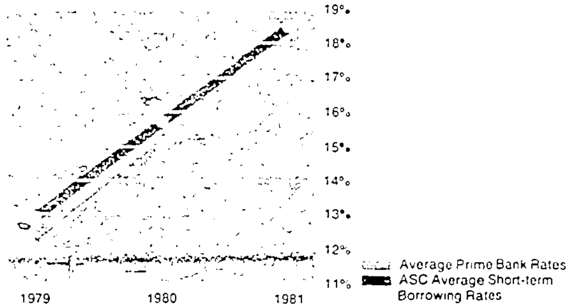
The Company uses short-term borrowings for seasonal inventory buildups as well as to finance construction projects prior to long-term debt placement. Average short-term borrowings amounted to $24,989,000, $15,431,000 and $12,521,000 in 1981, 1980 and 1979. The average interest rate on these borrowings amounted to 15.54% in 1981, 15.05% in 1980 and 12.11% in 1979. The average prime interest rates for these same periods were 18 49%, 15.70% and 12.87%. The maximum short-term borrowings outstanding in each were $55,000,000 in 1981, $69,100,000 in 1980 and $22,500,000 in 1979. There were no short-term borrowings at year-end. At January 30, 1982, the Company had available $116,000,000 in short-term bank lines of credit, as well as an $80,000,000 letter of credit facility, with a group of three banks, which is used to support commercial paper borrowings. The Company believes that these lines of credit are adequate to meet short-term cash needs over the next few years.

Short-Term Borrowings

(In millions)



Interest Rates

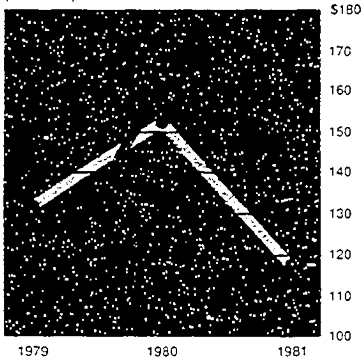


Debt to Equity

In 1981 the Company's proceeds from long-term borrowings were $8,152,000 compared to $110,244,000 in 1980 and $192,726,000 in 1979. The larger borrowings in 1980 and 1979 were primarily associated with the merger with former American Stores Company. The details of these borrowings are discussed in the notes to Consolidated Financial Statements under the headings "MERGER" and "LONG-TERM DEBT." However it is significant to note that the Company has reduced its long-term borrowings in spite of maintaining an aggressive real estate program as well as having an increase in working capital. Actual 1981 capital expenditures, which include the present value of the leases that are required to be capitalized under current accounting requirements, amounted to $118,900,000 compared to the $110,000,000 originally forecast. This represents a 23 percent reduction of approximately $35,069,000 from the $153,969,000 in 1980 The Company expects to increase its capital expenditures to approximately $135,000,000 in 1982. The Company is committed to having a larger portion of capital expenditures financed by internally generated funds. The graph to the left shows that funds provided from operations, plus the proceeds from the sale of surplus property, have, as a percent of capital expenditures, increased in each of the last two years.

Capital Expenditures & Funds Derived from Operations

(In millions)



The Company continues its effort to strengthen its debt-to-equity ratio, having paid off $37,890,00, $66,085,000, and $40,849,000 in long-term debts and obligations under capital leases in 1981, 1980 and 1979. These reductions are net of replacement debt but include payments of current maturities associated with long-term borrowing. These pay-downs, coupled with a lower level of long-term borrowings, have reduced long-term debt and capitalized leases by $13,825,000 in 1981 and $7,402,000 in 1980. Common shareholders' equity increased $45,725,000 in 1981 over 1980 and $33,122,000 in 1980 over 1979. This improvement, coupled with a decrease in long-term debt, reduced the Company's debt-to-common shareholders' equity to 1.31 to 1 in 1981, from 1.61 to 1 in 1980 and 1.90 to 1 in 1979. These ratios demonstrate the Company's long-term commitment to strengthen its financial position and bring its financial ratios more in line with those of the pre-merger company.

Replacement Cost

In the notes to Consolidated Financial Statements under the caption "SUPPLEMENTARY INFORMATION ON INFLATION AND CHANGING PRICES (UNAUDITED)" is a discussion of the effects of inflation using a measurement basis developed by the Financial Accounting Standards Board. Explanatory comments are included in the disclosure on the effect of changing prices on the Company's operations. It should be noted that while the Company has made the disclosure as required by the Financial Accounting Standards Board, the Company takes exception to the development of the cost of merchandise sold under the general inflation section of the disclosure as it does not fairly reflect the Company's history of matching sales price with merchandise cost. While the Company understands the desire of the Financial Accounting Standards Board to give meaningful information about inflation, it feels that the general inflation disclosure adds to the confusion about the "Inflation" disclosure and is contrary to the Board's stated objectives.

AMERICAN STORES COMPANY BOARD OF DIRECTORS

William R. Deeley [1,3,4,5]
Vice Chairman of the Board

Thomas W. Field, Jr. [1]
President, American Stores Company
*President & Chief Executive Officer, Alpha Beta Company**

Williford Gragg [3,5]
Retired—Former Chairman of the Board United States Fidelity & Guaranty Company

John Hartman [1]
Vice Chairman of the Board
*President & Chief Executive Officer Skaggs Companies, Inc.**

L. Spry Kelly [2,3,5]
Retired—Former Partner, Coopers & Lybrand

Thomas W. King
*President & Chief Executive Officer Acme Markets, Inc.**

Mitchell Melich [3,5]
Attorney at Law Ray, Quinney & Nebeker

L. Tom Perry [2,5]
Member of the Council of the Twelve The Church of Jesus Christ of Latter-Day Saints

Isadore M. Scott [2,4]
Chairman of the Board Tosco Corporation

Richard L. Shanaman
Executive Vice President, Chief Financial Officer & Treasurer

E.A. Sinclair [3,5]
Retired—Former Secretary of the Company

Aline W. Skaggs [4]
Active in Civic Affairs

L. S. Skaggs [1,3,4,5]
Chairman of the Board & Chief Executive Officer

Thomas H. Sunday [1]
Executive Vice President, Chief Administrative Officer & General Counsel

I. J. Wagner [2,4]
President The Keystone Company

1 Executive Committee
2 Audit Committee
3 Finance Committee
4 Nominating Committee
5 Compensation & Stock Option Committee

*Wholly owned subsidiary of American Stores Company

AMERICAN STORES COMPANY OFFICERS

L.S. Skaggs
Chairman of the Board & Chief Executive Officer

Thomas W. Field, Jr.
President

William R. Deeley
Vice Chairman of the Board

John Hartman
Vice Chairman of the Board

Richard L. Shanaman
Executive Vice President, Chief Financial Officer and Treasurer

Thomas H. Sunday
Executive Vice President, Chief Administrative Officer and General Counsel

Richard G. Dunlop
Vice President, Secretary and Assistant to the Chairman of the Board

Victor L. Lund
Vice President and Controller

Michael T. Miller
Vice President and Assistant Secretary

Robert L. Salmon
Vice President

OFFICERS OF THE PRINCIPAL OPERATING SUBSIDIARIES

Acme Markets, Inc.
124 North 15th Street, Philadelphia, PA 19101 —(215) 568-3000

Thomas W. King
President & Chief Executive Officer

Robert W. McCahan
Executive Vice President

Alpha Beta Company
777 South Harbor Boulevard, La Habra, CA 90631—(714) 738-2000

Thomas W. Field, Jr.
President & Chief Executive Officer

Richard P. Gladden
Executive Vice President

Robert O. Kuchenbecker
Executive Vice President

Rea and Derick, Inc.
Fifth & Orange Streets, Northumberland, PA 17857—(717) 473-3511

Val D. Buckmiller
President and Chief Executive Officer

Skaggs Companies, Inc.
Post Office Box 30658, Salt Lake City, Utah 84130—(801) 487-4531

John Hartman
President & Chief Executive Officer

Fenton L. Maynard
Executive Vice President

Arnold Ford
Executive Vice President

Cal O. Drecksel
Executive Vice President

Joseph R. Bowman
Executive Vice President

American Stores Realty Corp.
Post Office Box 27447, Salt Lake City, Utah 84127—(801) 539-0112

Edwin R. Markson
President

Ralph E. Davis
Executive Vice President

American Stores Buying Company
Post Office Box 5907, San Mateo, CA 94402—(415) 349-8181

Fritz W. Keil
President

American Stores Management Systems Company
Post Office Box 27447, Salt Lake City, Utah 84127—(801) 539-0112

Scott Bergeson
President

CONSOLIDATED STATEMENTS OF EARNINGS

Fiscal years ended January 30, 1982, January 31, 1981 and February 2, 1980.

American Stores Company and Subsidiaries

(In thousands of dollars, except per share data)	52 Weeks 1981	52 Weeks 1980	53 Weeks 1979
Sales	**$7,096,590**	$6,419,884	$3,786,332
Cost of merchandise sold, including warehousing and transportation expenses	**5,478,590**	4,990,764	2,926,123
Gross profit	**1,618,000**	1,429,120	860,209
Operating, general and administrative expenses	**1,477,258**	1,303,683	762,736
Operating profit	**140,742**	125,437	97,473
Other deductions (income):			
Interest expense	**42,162**	45,256	34,852
Other income	**(20,388)**	(11,915)	(11,283)
	21,774	33,341	23,569
Earnings before income taxes	**118,968**	92,096	73,904
Federal and state income taxes	**54,416**	40,543	29,470
Net earnings	**$ 64,552**	$ 51,553	$ 44,434
Average common shares outstanding	**9,847**	9,804	8,844
Net earnings per common share	**$5.42**	$4.11	$4.36

See notes to consolidated financial statements

REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors
American Stores Company
Salt Lake City, Utah

We have examined the consolidated balance sheets of American Stores Company and subsidiaries as of January 30, 1982 and January 31, 1981, and the related consolidated statements of earnings, common shareholders' equity, and changes in financial position for each of the three fiscal years in the period ended January 30, 1982 Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of American Stores Company and subsidiaries at January 30, 1982 and January 31, 1981, and the consolidated results of their operations and changes in their financial position for each of the three fiscal years in the period ended January 30, 1982, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the method of accounting for interest costs as described in, "Capitalized Interest Costs," in the notes to consolidated financial statements.

Ernst & Whinney

Los Angeles, California
March 5, 1982

CONSOLIDATED BALANCE SHEETS

American Stores Company and Subsidiaries

(In thousands of dollars)

ASSETS	January 30, 1982	January 31, 1981
Current Assets		
Cash and temporary cash investments	**$ 53,013**	$ 29,834
Receivables	**38,924**	36,795
Inventories, at lower of cost or market	**561,163**	534,225
Prepaid expenses	**25,793**	23,588
Properties to be developed and sold within one year	**3,312**	9,876
Total current assets	**682,205**	634,318
Property, Plant, and Equipment, at cost		
Land	**42,173**	42,477
Buildings	**118,831**	95,959
Machinery, equipment, and fixtures	**421,652**	380,629
Leasehold costs and improvements	**101,614**	96,078
	684,270	615,143
Less accumulated depreciation and amortization	**191,490**	134,129
Net property, plant, and equipment	**492,780**	481,014
Property Under Capital Leases, less accumulated amortization of $50,959 in 1981 and $39,657 in 1980	**151,900**	149,261
Other Assets	**29,443**	28,399
	$1,356,328	$1,292,992

LIABILITIES AND SHAREHOLDERS' EQUITY

(In thousands of dollars)	January 30, 1982	January 31, 1981
Current Liabilities		
Current maturities of long-term debt	**$ 1,521**	$ 3,489
Current obligations under capital leases	**9,833**	9,620
Trade accounts payable	**296,073**	311,050
Other accrued liabilities	**103,219**	87,411
Accrued wages payable	**75,661**	67,562
Federal and state income taxes	**32,514**	21,757
Total current liabilities	**518,821**	500,889
Long-term Debt, less current maturities	**204,025**	221,249
Obligations Under Capital Leases, less current portion	**176,445**	171,078
Other Liabilities	**35,379**	35,317
Deferred Income Taxes	**13,955**	2,481
$5.51 Cumulative Redeemable Preferred Stock of $1 par value. Authorized 2,450,000 shares; issued 2,036,372 shares at redemption value	**118,110**	118,110
Common Shareholders' Equity		
Common stock of $1 par value. Authorized 11,000,000 shares; issued 10,000,698 shares	**10,001**	10,001
Paid-in capital	**95,124**	95,471
Retained earnings	**188,345**	142,892
Less cost of common treasury stock; 154,768 shares in 1981 and 178,904 shares in 1980	**(3,877)**	(4,496)
Total common shareholders' equity	**289,593**	243,868
	$1,356,328	$1,292,992

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Fiscal years ended January 30, 1982, January 31, 1981 and February 2, 1980

American Stores Company and Subsidiaries

	(In thousands of dollars)	52 Weeks 1981	52 Weeks 1980	53 Weeks 1979
Sources of Funds	Net earnings	**$ 64,552**	$ 51,553	$ 44,434
	Add items charged against earnings not affecting working capital:			
	Depreciation and amortization	**80,799**	75,079	41,218
	Deferred income taxes	**11,474**	8,224	(1,360)
	Other	**1,063**	1,137	(789)
	Total provided from operations	**157,888**	135,993	83,503
	Proceeds from long-term borrowing	**8,152**	110,244	192,726
	Additions to obligations under capital leases	**17,515**	14,740	8,303
	Disposals of owned properties	**21,635**	23,999	6,441
	Disposals of leased properties	**2,061**	2,804	8,320
	Issuance of preferred stock	**—**	—	118,110
	Issuance of common stock	**—**	—	50,889
	Increase in other liabilities	**62**	10,398	5,206
		207,313	298,178	473,498
Uses of Funds	Non-current assets (principally property, plant, and equipment) of former American Stores Company acquired in merger	**—**	—	393,487
	Less long-term debt and other obligations assumed	**—**	—	220,003
		—	—	173,484
	Expended for property, plant, and equipment	**101,385**	139,229	122,132
	Additions to property under capital leases	**17,515**	14,740	8,303
	Reduction of long-term debt	**25,376**	119,418	61,427
	Reduction of obligations under capital leases	**12,148**	12,968	15,149
	Cash dividends	**19,099**	19,084	14,101
	Purchase of treasury stock	**445**	—	6,380
	Other, net	**1,390**	(1,595)	6,210
		177,358	303,844	407,186
	Increase (decrease) in working capital	**29,955**	(5,666)	66,312
	Working capital—beginning of year	**133,429**	139,095	72,783
	Working capital—end of year	**$163,384**	$133,429	$139,095

Changes in Components of Working Capital

(In thousands of dollars)	52 Weeks 1981	52 Weeks 1980	53 Weeks 1979
Increase (decrease) in current assets:			
Cash and temporary cash investments	**$23,179**	$(23,559)	$ 48,276
Inventories	**26,938**	39,048	344,436
Other	**(2,230)**	9,378	49,643
	47,887	24,867	442,355
Increase (decrease) in current liabilities:			
Current maturities of long-term debt	**(1,968)**	(32,698)	35,728
Current obligations under capital leases	**213**	546	6,704
Accounts payable and accrued liabilities	**831**	44,901	224,781
Other	**18,856**	17,784	108,830
	17,932	30,533	376,043
Increase (decrease) in working capital	**$29,955**	$ (5,666)	$ 66,312

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

Fiscal years ended January 30, 1982, January 31, 1981 and February 2, 1980

American Stores Company and Subsidiaries

(In thousands of dollars)	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balances at December 28, 1978	$ 7,987	$47,903	$ 78,612	$ (179)	$134,323
Net earnings for the four weeks ended January 25, 1979			1,478		1,478
Net earnings for the 53 weeks ended February 2, 1980			44,434		44,434
Issuance of 2,013,787 common shares in merger	2,014	48,582			50,596
Purchase of 250,450 common treasury shares				(6,380)	(6,380)
Issuance of 24,147 common shares from treasury upon exercise of stock options		(315)		608	293
Common dividends—$.80 a share			(8,186)		(8,186)
Preferred dividends—$3.465 a share			(5,915)		(5,915)
Other....		103			103
Balances at February 2, 1980	10,001	96,273	110,423	(5,951)	210,746
Net earnings for the 52 weeks ended January 31, 1981			51,553		51,553
Issuance of 57,932 common shares from treasury upon exercise of stock options		(792)		1,455	663
Common dividends—$.80 a share			(7,864)		(7,864)
Preferred dividends—$5.51 a share			(11,220)		(11,220)
Other................		(10)			(10)
Balances at January 31, 1981	$10,001	$95,471	$142,892	$ (4,496)	$243,868

(In thousands of dollars)	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balances at January 31, 1981	**$10,001**	**$95,471**	**$142,892**	**$(4,496)**	**$243,868**
Net earnings for the 52 weeks ended January 30, 1982			**64,552**		**64,552**
Issuance of 32,336 common shares from treasury upon exercise of stock options ...		**(421)**		**813**	**392**
Common dividends—$ 80 a share			**(7,879)**		**(7,879)**
Preferred dividends—$5 51 a share			**(11,220)**		**(11,220)**
Purchase of 18,200 common treasury shares				**(445)**	**(445)**
Other		**74**		**251**	**325**
Balances at January 30, 1982	**$10,001**	**$95,124**	**$188,345**	**$(3,877)**	**$289,593**

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

American Stores Company and Subsidiaries

SIGNIFICANT ACCOUNTING POLICIES

Business

The Company, through its subsidiaries, is engaged primarily in the operation of retail stores selling food and drug merchandise.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Inventories

Inventories are stated at the lower of cost or market. The last-in, first-out (LIFO) method is used to determine the cost of certain categories of grocery inventories Cost of the balance of grocery inventories and all other inventories is computed by either the first-in, first-out (FIFO) or average cost methods.

Depreciation and Amortization

Depreciation and amortization, including amortization of property under capital leases, charged to earnings for financial statement purposes are generally computed using the straight-line method applied to individual property items.

Costs of Opening and Closing Stores

The costs of opening new stores are charged against earnings in the year in which they are incurred. When operations are discontinued and a store is closed, the remaining investment in fixtures and improvements, net of expected salvage, is charged against earnings and provision made for the remaining liability under the lease, net of expected sublease recovery.

Income Taxes

The Company provides deferred income taxes or credits where there are timing differences in recording income and expenses for financial reporting and tax purposes. The Company reduces its current income tax provisions for investment tax credits in the year in which the credits arise

Pension Costs

Pension costs are actuarially computed and include amortization of prior service cost over periods ranging to 30 years. The Company's policy is to fund pension costs accrued to the extent they are currently deductible for income tax purposes.

Net Earnings Per Common Share

Net earnings per common share are determined by dividing the weighted average number of common shares outstanding during the year into net earnings after deducting dividends attributable to preferred shares Common share equivalents in the form of stock options are excluded from the calculations since they have no material dilutive effect on per share figures.

CASH AND TEMPORARY CASH INVESTMENTS

Temporary cash investments consist primarily of certificates of deposit, treasury bills and notes, bankers acceptances, repurchase agreements and commercial paper which are carried at cost, which approximates market. At January 30, 1982 and January 31, 1981, certificates of deposit and other securities with a maturity of over 90 days amounted to $14,170,000 and $100,000; short-term investments were $58,081,000 and $27,712,000, respectively As a result of the Company's cash management program, checks issued and not presented to the bank for payment, amounting to $100,420,000 and $80,472,000, have been deducted from cash and temporary cash investments at January 30, 1982 and January 31, 1981, respectively.

INVENTORIES

The dry grocery inventories of certain of the Company's subsidiaries are valued at last-in, first-out (LIFO) cost. Such inventories amounted to $183,480,000 at January 30, 1982 and $179,495,000 at January 31, 1981

If the first-in, first-out (FIFO) and average cost methods had been used, inventories would have been $57,747,000 and $48,870,000 higher at January 30, 1982 and January 31, 1981, respectively. The LIFO charge to earnings, before income taxes, was $8,877,000 in 1981, $13,636,000 in 1980, and $6,974,000 in 1979.

SHORT-TERM BORROWINGS

Under lines of credit arrangements for short-term borrowings with a group of banks, the Company may borrow up to $116,000,000 on such terms as the Company and the banks may mutually agree. These arrangements are reviewed annually for renewal.

In connection with these lines of credit, the Company has agreed to maintain approximately $3,300,000 in average compensating balances. The compensating balances also reduce charges for normal bank services provided the Company. Compensating balances are not restricted as to withdrawal. In the event the lines are drawn upon, additional cash balances may be required by the banks.

LONG-TERM DEBT

A summary of long-term debt is as follows:

(In thousands of dollars)	January 30, 1982	January 31, 1981
Notes payable, 12% due 1990	**$ 75,000**	$ 75,000
Sinking fund debentures.		
9⅜% due 1982 through 2001	**37,560**	50,000
9⅞% due through 1990	**12,466**	14,539
Loans secured by real estate, interest rates from 4¾% to 14¾% due through 2004	**80,520**	76,199
Other	**—**	9,000
	205,546	224,738
Less current maturities	**1,521**	3,489
Long-term	**$204,025**	$221,249

The aggregate amounts of long-term debt maturing in each of the next five fiscal years are:

(In thousands of dollars)		
	1982	$ 1,521
	1983	18,160
	1984	1,270
	1985	1,914
	1986	6,586

In May 1980, the Company issued $75,000,000 in notes due in 1990. The notes may not be redeemed by the Company prior to June 1, 1987. Thereafter, the notes are redeemable at the option of the Company, in whole or in part at any time prior to maturity at a price equal to 100% of principal amount plus accrued interest to the redemption date.

The 12% notes payable contain the most restrictive loan convenants which apply to, among other things, the amount of senior funded debt and encumbrance of fixed assets. In addition, dividends plus redemption of any capital stock are limited to net earnings after February 2, 1980 plus $60,000,000. Retained earnings of $138,750,000 at January 30, 1982 are available for payment of dividends and redemption of capital stock.

The various loans secured by real estate are collateralized by properties with a carrying value of $71,184,000.

CAPITALIZED INTEREST COSTS

In accordance with a pronouncement of the Financial Accounting Standards Board in 1980, the Company changed its method of accounting for capitalizing interest costs associated with long-term construction projects. Interest cost incurred in 1981 and 1980 totalled $45,158,000 and $50,484,000, respectively, of which $2,996,000 and $5,228,000 was capitalized, resulting in an increase in net earnings of $1,625,000 or $.16 per common share in 1981 and $2,614,000 or $ 27 per common share in 1980.

LEASES

The Company and subsidiaries lease a majority of the retail stores and certain distribution facilities with initial terms ranging from 15 to 25 years, plus renewal options. Certain store leases provide for additional rentals based on sales volume in excess of specified levels.

The Company has classified its leases as either capital or operating. The summary below shows the aggregate future minimum rental commitments as of January 30, 1982, for both capital and operating leases:

(In thousands of dollars)

FISCAL YEAR	OPERATING LEASES	CAPITAL LEASES
1982	$ 40,804	$ 28,154
1983	37,252	27,362
1984	36,890	27,278
1985	33,497	25,619
1986	29,917	23,253
Thereafter	369,864	246,694
Total minimum rental commitments	$548,224	378,360
Less executory costs (such as taxes, insurance, and maintenance) included in capital leases		12,245
Net minimum lease payments		366,115
Less amount representing interest		179,837
Obligations under capital leases, including $9,833,000 due within one year		$186,278

Rental expense was as follows:

(In thousands of dollars)	MINIMUM RENTALS	RENTALS BASED ON SALES	TOTAL RENTALS
1981	**$50,490**	**$19,725**	**$70,215**
1980	48,080	15,359	63,439
1979	27,601	7,573	35,174

INCOME TAXES

Federal and state income taxes charged to earnings are summarized below:

(In thousands of dollars)	1981	1980	1979
Current:			
Federal	**$45,629**	$24.769	$26,711
State	**5,838**	7,550	4,119
Deferred:			
Federal	**2,625**	8,699	(1,210)
State	**324**	(475)	(150)
	$54,416	$40,543	$29,470

The provision for federal income taxes differs from the amount which would be provided by applying the statutory rate (46%) to earnings before income taxes as follows:

(In thousands of dollars)	1981	1980	1979
Tax expense computed at statutory federal income tax rate	**$54,752**	$42,364	$33,996
State income taxes, net of federal income tax	**3,327**	3,820	2,144
Tax credits	**(5,613)**	(7,963)	(6,634)
Other	**1,950**	2,322	(36)
	$54,416	$40,543	$29,470
Effective income tax rate	**45.7%**	44.0%	39.9%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(cont.)

American Stores Company and Subsidiaries

INCOME TAXES (cont.)

Deferred income tax expense resulted from the following:

(In thousands of dollars)	1981	1980	1979
Accelerated depreciation for tax purposes	**$4,530**	$5,975	$1,618
Reserves for self-insurance	**(1,230)**	(2,466)	(3,133)
Capitalized interest	**1,133**	2,614	—
Early extinguishment of debt	**1,883**	95	—
Other	**(3,367)**	2,006	155
	$2,949	$8,224	$(1,360)

Federal income tax returns of the Company for all years prior to 1978 have been examined by the Internal Revenue Service and all issues have been agreed to for settlement.

STOCK OPTION PLAN

On May 21, 1975, the shareholders approved a stock option plan for employees, reserving 750,000 shares of common stock. The Company has granted stock options to employees at prices ranging from $.67 to $19.50 per share. In 1978, the shareholders approved an amendment to the 1975 plan providing for Stock Appreciation Rights.

Pursuant to the Merger Agreement between the Company and former American Stores Company, the Company assumed the former American stock option plan with appropriate adjustments to number of shares and exercise prices to give effect to the merger. As adjusted, former American stock options are exercisable at $13.96 per share.

Under the above described plans, stock options are exercisable on a cumulative basis of ten years or less. Compensation expense recognized was $284,000, $51,000 and $304,000 for 1981, 1980 and 1979, respectively. Amounts deferred for future amortization under stock option grants at less than market value were $312,000 at January 30, 1982, $391,000 at January 31, 1981 and $476,000 at February 2, 1980. At January 30, 1982 and January 31, 1981, options for 32,231 and 36,463 shares, respectively, were exercisable. A summary of changes in shares under option follows:

	1981	1980	1979
Outstanding at beginning of year	**401,403**	498,803	352,519
Former American Stores Company options assumed	**—**	—	180,231
Exercised	**(44,428)**	(58,043)	(24,297)
Forfeited	**(43,300)**	(39,357)	(9,650)
Outstanding at end of year	**313,675**	401,403	498,803
Average option price per share	**$16.80**	$16.53	$15.61
Reserved for future grant	**658,107**	614,807	575,450

PENSION PLANS

Substantially all of the employees of the Company and its subsidiaries are covered under pension plans. Almost all who are members of bargaining units are covered by multi-employer plans. For other eligible employees, the Company provides pension benefits through several plans. The actuarially computed value of accumulated benefits of Company-sponsored plans, as estimated by consulting actuaries at the dates of latest valuation using an interest rate of 7% at January 1, 1982 and 6% at January 1, 1981 and the net assets available for benefits are shown below. Similar information is not available to the Company for the multi-employer plans discussed above.

(In thousands of dollars)	JANUARY 1, 1982	JANUARY 1, 1981
Actuarial present value of accumulated benefits:		
Vested	**$107,553**	$105,464
Nonvested	**15,854**	8,735
	$123,407	$114,199
Net assets available for benefits	**$138,081**	$116,192

The amount charged to expense for all plans was $57,842,000, $53,225,000 and $26,790,000 for 1981, 1980 and 1979, respectively.

LITIGATION

As previously reported, in addition to various claims and litigation arising in the normal course of business, the Company has been named defendant in 19 civil suits filed against the Company and/or former American Stores Company and numerous other defendants by certain purported producers and feeders of cattle alleging certain violations of the antitrust laws with respect to the purchase and sale of beef. Most of said cases were consolidated for pre-trial proceedings in the Dallas Division of the U.S. District Court for the Northern District of Texas where the court dismissed the consolidated cases on the basis of the decision of the U.S. Supreme Court in *Illinois Brick Co. v. Illinois*, 431, U.S. 720 (1977). Upon appeal, the Fifth Circuit Court of Appeals, as previously reported, reversed the dismissal. The plaintiffs and the defendants both sought review of this action by the U.S. Supreme Court, which denied, on October 14, 1980, the Petitions for Writs of Certiorari filed by the respective parties and remanded the case to the District Court in Dallas for further pre-trial proceedings. Various pre-trial motions are presently pending.

Since the proceedings in these cases have not yet progressed beyond the preliminary stages of discovery, the Company cannot predict the ultimate outcome. However, management believes that no basis exists for the allegations made against the Company in these complaints and that it is unlikely that these lawsuits will materially affect the consolidated earnings and financial position of the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(cont.)

American Stores Company and Subsidiaries

QUARTERLY RESULTS (UNAUDITED)

In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation have been included.

(In thousands of dollars, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
1981					
Sales	**$1,677,755**	**$1,769,335**	**$1,765,829**	**$1,883,671**	**$7,096,590**
Gross profit	**375,995**	**395,710**	**395,278**	**451,017**	**1,618,000**
Net earnings	**9,741**	**13,559**	**9,626**	**31,626**	**64,552**
Net earnings per common share	**.71**	**1.08**	**.69**	**2.34**	**5.42**
1980					
Sales	$1,531,629	$1,579,494	$1,588,027	$1,720,734	$6,419,884
Gross profit	345,839	349,120	349,094	385,067	1,429,120
Net earnings	12,630	[illegible],231	7,162	18,530	51,553
Net earnings per common share	1.01	1.06	.44	1.60	4 11

SUPPLEMENTARY INFORMATION ON INFLATION AND CHANGING PRICES (UNAUDITED)

The following information is presented in accordance with the principles of inflation accounting enumerated in Statement of Financial Accounting Standards No. 33, Financial Reporting and Changing Prices. The information attempts to show the impact of changing prices on certain historical financial data. Because the required disclosures are experimental in nature, several different approaches to presenting the data have been mandated which are outlined in the following paragraphs.

The first approach adjusts the historical cost financial statement dollars to dollars of the same general purchasing power. For example, if the inflation rate is ten percent from one year to the next year, then ten percent more dollars are needed in the second year to maintain the same general purchasing power. This adjustment to common units of measurement—constant dollars—is accomplished by using an index which measures inflation. Statement 33 prescribes the use of the Consumer Price Index for All Urban Consumers. Therefore, the constant dollar method starts with historical dollars as recorded using generally accepted accounting principles and adjusts these dollars to reflect changes in purchasing power (inflation) using a consumer price index. Under this constant dollar approach, the assets acquired and liabilities assumed in the merger with former American Stores Company, as well as its post-merger operations, have been adjusted using the Consumer Price Index from the purchase date, July 26, 1979.

In a second method, the accompanying data are also adjusted to reflect current costs of inventory and property, plant, and equipment which have generally increased over time at a rate different from that of the Consumer Price Index. Current replacement costs have been used to value these items, i.e., the specific prices applicable at year-end 1981 to replace inventory and property, plant, and equipment.

In its historical cost financial statements the Company determines cost of a majority of its inventories using either the first-in, first-out (FIFO) or average cost methods. The last-in, first-out (LIFO) method is used to value all other inventories and for purposes of estimating current cost, such LIFO inventories have been stated at the lower of equivalent FIFO cost or replacement market. Because of the rapid turnover of inventories and the use of LIFO costing for certain items, the cost of merchandise sold, as shown in the financial statements normally approximates current cost at the time of sale. However, such amounts have been adjusted, where appropriate, for the effects of inflation during the time lag between purchase and sale of merchandise.

For the most part, the replacement data represent replacement in-place and in-kind. No consideration has been given to the replacement of assets with a different type, to improved operating cost efficiencies of replacement assets and similar situations. The replacement costs used, while believed reasonable, are necessarily subjective. They do not necessarily represent amounts for which the assets could be sold or costs which will be incurred in future periods, or the manner in which actual replacement of assets will occur. Land has been valued based on estimated current market prices. The current costs of the other property, plant, and equipment, including buildings under capitalized lease obligations, were developed as follows:

For all other fixed assets, a review of buildings under construction or completed during 1981 was performed to determine actual current cost per square foot for each location for building and equipment costs. The current cost for nonretail facilities was determined through specific identification, where possible, or the use of indexes applicable to the type of asset being valued.

In developing current costs of assets acquired in the merger with former American Stores Company, construction costs were determined as discussed in the preceding paragraph. The increase in these costs since July 26, 1979 (the merger date) were used to develop indexes of construction costs which have been applied to the costs compared to those assets at the merger date.

Depreciation adjustments, under both the general purchasing power and current cost approaches, have maintained the same methods, useful lives, and salvage values as used in computing historical cost depreciation.

As a part of this footnote, there are several tables included to demonstrate the impact of inflation on the Company's financial statements. The first table provides the net changes in earnings, as reported in historical cost financial statements, to adjust for the effects of general inflation and specific prices.

Statement 33 requires that income taxes paid not be modified for the effects of either constant dollar or specific adjustments. Therefore, the effective income tax rate, based on historical earnings, increases when compared with constant dollar results and specific price earnings. This increase points up the serious impact on earnings of income taxes in an inflationary economy.

This table also provides the changes in value which occurred during the year. The first is the unrealized benefit, applicable to both methods, due to inflation with a resulting decline in purchasing power of the net monetary amounts owed. A monetary

SUPPLEMENTARY INFORMATION ON INFLATION AND CHANGING PRICES (UNAUDITED)
(cont.)

asset is money or a claim to receive a sum of money, the amount of which is fixed or determinable without reference to future prices of specific goods or services. Therefore, cash, temporary cash investments, receivables, current liabilities, and long-term debt are monetary items. Since the monetary liabilities at year-end 1981 were larger than the monetary assets, an unrealized benefit is shown.

The second adjustment is applicable only to the specific price method and is the increase in value during the year due to increases in the specific prices for inventory and property, plant, and equipment compared to that which is attributed to the increase in value due to the effect of general inflation.

The second table presents values of inventories and property, plant, and equipment on the historic cost basis as adjusted for specific price increases at January 30, 1982.

The third table is a five-year summary of results adjusted for the effects of general inflation and for changes in specific prices. For the years 1977 and 1978 only information applicable for sales, per share dividends, per share market price at year-end, and the average consumer price index has been shown because this information covering inventories and property, plant, and equipment is not available at a cost management feels justifies the results.

Consolidated statement of earnings and other changes in ownership interest adjusted for changing prices for the fiscal year ended January 30, 1982

Results of Operations

(In thousands of dollars)	AS REPORTED	ADJUSTED FOR GENERAL INFLATION	ADJUSTED FOR SPECIFIC PRICES
Sales	$7,096,590	$7,096,590	$7,096,590
Costs and expenses:			
Cost of merchandise sold	5,478,590	5,505,662	5,481,187
Depreciation and amortization	80,799	103,940	102,523
Other costs	1,418,233	1,422,292	1,421,369
Total costs	6,977,622	7,031,894	7,005,079
Earnings before income taxes	118,968	64,696	91,511
Income taxes	54,416	54,416	54,416
Net earnings	$ 64,552	$ 10,280	$ 37,095
Effective income tax rate	45.7%	84.1%	59 5%

Changes in Carrying Value

Increase in current cost of inventories and property, plant, and equipment	$ 83,365
Less effect of increases in the general price level	105,332
Excess of increases in general price level over increases in the specific prices	$ 21,967

Inventory and property, plant, and equipment adjusted for changes in specific prices at January 30, 1982

(In thousands of dollars)	AS REPORTED	AS ADJUSTED
Inventories	$561,163	$621,508
Property, plant, and equipment and property under capital leases, net	644,680	838,489

Five-year comparison of selected supplementary financial data adjusted for effects of changing prices

(In average 1981 dollars, except reported amounts)

(In thousands of dollars, except per share data)	1981	1980	1979	1978	1977
Sales					
As reported	**$7,096,590**	$6,419,884	$3,786,332	$1,089,909	$ 899,772
Adjusted for general inflation	**7,096,590**	7,066,769	4,723,441	1,529,442	1,359,325
Net earnings					
As reported	**64,552**	51,553	44,434		
Adjusted for general inflation	**10,280**	7,942	9,449		
Adjusted for specific price changes	**37,095**	38,249	34,136		
Earnings (loss) per share data					
As reported	**5.42**	4.11	4.36		
Adjusted for general inflation	**(.10)**	(.45)	.24		
Adjusted for specific price changes	**2.62**	2 61	3.02		
(Deficiency) excess of increase in specific prices over increase in the general price level	**(21,967)**	(23,400)	31,264		
Purchasing power gain from holding net monetary liabilities	**67,470**	96,646	62,279		
Net assets at year-end					
As reported	**407,703**	361,978	328,856		
Adjusted for general inflation	**625,559**	568,863	482,380		
Adjusted for specific price changes	**643,384**	600,701	547,657		
Cash dividends declared per common share					
As reported	**.80**	.80	.80	.725	.60
Adjusted for general inflation	**.80**	.88	1.00	1.02	.91
Market price per common share at year-end					
Historical amount	**26.75**	23.38	28.25	27.875	25.25
Adjusted for general inflation	**26.75**	25.74	35.24	39.12	38.15
Average consumer price index	**274.2**	249.1	219.8	195.4	181.5

REDEEMABLE PREFERRED STOCK

The Company's redeemable preferred stock was issued in connection with the merger. The preferred stock is not redeemable until July 26, 1984. Thereafter, it is redeemable, in whole or in part, at the option of the Company, at $58 per share plus accrued dividends. Beginning July 26, 1989, the Company is required to redeem annually 5% of the number of shares initially outstanding at $58 per share plus accrued dividends.

The redeemable preferred stock has preferential and cumulative dividends at a rate of $5.51 per share plus liquidation preference at $58 per share plus accrued dividends over the holders of common stock.

MERGER

On May 7, 1979, the Company acquired 46 percent of the outstanding common stock of former American Stores Company for $141,844,000 in cash. Subsequently, on July 26, 1979, the remaining 54 percent was acquired in exchange for 2,036,372 shares of $5.51 cumulative redeemable preferred stock with a redemption value of $58 or a total value of $118,110,000 and 2,013,787 shares of common stock with a market value of $50,596,000. The total purchase price was $315,351,000.

The merger has been accounted for as a purchase and, accordingly, results of former American's operations have been included in the accompanying financial statements since July 27, 1979. The purchase price of former American Stores Company approximated the value assigned to the net assets at date of acquisition.

For the period from May 7, 1979 to July 26, 1979, the Company's 46 percent investment was accounted for under the equity method of accounting. Former American Stores Company was primarily an operator of retail stores selling food and drug merchandise.

The following pro forma summary combines the results of operations of the Company and former American Stores Company as if the acquisition had taken place at the beginning of the 1979 fiscal year. The data reflects, among other things, interest on funds expended to acquire the 46 percent interest in former American. Earnings per common share computations give effect to dividend requirements of the preferred stock.

Net sales	**$6,120,963**
Net earnings	**$62,782**
Net earnings per common share	**$5.29**

SUPPLEMENTARY INCOME STATEMENT INFORMATION

Advertising expense amounted to $71,263,000, $72,685,000 and $40,595,000 for 1981, 1980 and 1979, respectively.

COMMON STOCK MARKET PRICES AND DIVIDENDS

The market price range on the New York Stock Exchange and the dividends declared on the Company's common stock are set forth in the table below. The common and preferred shares of the Company are listed on the New York, Philadelphia, and Pacific Stock Exchanges under AmStr and the trading symbol is ASC. The number of shareholders of the Company's common stock at March 3, 1982 was 11,342.

	YEAR ENDED					
	January 30, 1982			January 31, 1981		
	Sales Price		Cash Dividends Declared	Sales Price		Cash Dividends Declared
	High	Low		High	Low	
First Quarter	**27⅜**	**22½**	**$.20**	28½	20¼	$.20
Second Quarter	**27⅜**	**24**	**.20**	29⅞	23¼	.20
Third Quarter	**25½**	**21¼**	**.20**	30½	26½	.20
Fourth Quarter	**29¾**	**25¼**	**.20**	28⅛	20¾	.20

CORPORATE INFORMATION

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Shareholder Relations
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SEC 10-K Report
In compliance with the requirements of the Securities and Exchange Commisssion, the Company has incorporated all essential material of its Form 10-K SEC filing requirements within this annual report. The intended result is to provide shareholders with full integrated annual disclosure in a single document.

Should you desire the supplementary document on the Form 10-K not already included in this annual report, it may be obtained without charge from the:

Treasurer's Office
Post Office Box 27447
Salt Lake City, Utah 84127